

Saimaa University of Applied Sciences  
Faculty of Business Administration, Lappeenranta  
Degree Programme in International Business

Maria Mikhailova

## **Import / Export Forwarding Processes in Russian Foreign Trade. Case: Vodoley Company.**

Thesis 2016

## **Abstract**

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Instructors: Lecturer Leena Laari-Muinonen, Saimaa University of Applied Sciences.

Manager Vera Kibakova, Vodoley Company.

The purpose of this thesis was to analyse import/export forwarding processes in the Russian foreign trade. Additionally, the structure and problems of Russian foreign trade were studied. The work is based on the practical experience of the Vodoley freight forwarding company.

Data for this research were collected by participatory observation, interview, Internet sources and literature analysis. The information was gathered from Russian and English languages sources.

The results of the study show the import and export forwarding processes in the Russian foreign trade. Moreover, the determination of possible risks and uncertainties has been done. The result can be applied to the international companies dealing with foreign trade.

Key words: foreign trade, import, export, freight forwarding.

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# **1 Introduction**

## **1.1 Background**

The character of the market economy is very dynamic. Needs of getting new products, services, increase in the productivity of the resources, developing specializations and will to get more profit are causes for foreign trade. Foreign trade consists of import and export processes and contributes to a more efficient use of both domestic resources and resources of other countries. Moreover, foreign trade brings together all the countries in a single economic system. The participants of this system are countries, enterprises and corporations. Foreign trade is provided by commercial operations, political aspects, law regulations, as well as logistics processes. Every country is trying to get the maximum profit from both exports and imports, but it should be beneficial for all members of the foreign trade.

Import/Export processes are usually risky procedures and need special attention and accuracy. Efficient organization of international trade requires knowledge of the customs legislation, clearance and declaring of freight, as well as restrictions on the export of goods and the specific requirements for the import of goods made by customs authorities. Ignorance of these facts can result in additional time, risks and costs.

Forwarding of the freight in all stages of the import/export processes can be quite a difficult process for a non-professional and can cause extra costs. For that purpose, more and more companies entrust these procedures to special companies, which have experience and deep understanding of what is going on in foreign trade.

This thesis is the analysis of processes that can be faced in import/export, as well as a practical experience of the freight forwarding company dealing with Russian foreign trade.

## **1.2 Objectives and limitations**

The objective of the study is to describe the import/export forwarding processes in a general way and in the practice in a freight forwarding company Vodoley. To make it more informative, potential problems and risks of these processes and their solutions will be analysed and reviewed.

Limitations of this thesis are that the focus of this study are logistics processes in foreign trade. Therefore, there is no detailed information about legal issues, political aspects, and global foreign trade.

Moreover, there is only the practice experience of one case company and one country (Russia) analysed in this work. Therefore, no competitors' analysis or comparisons of import/export processes of any other countries are included.

Another limitation is the lack of current statistic data. Due to the statistics from the first period of 2016 year is not ready yet; there is statistics mostly from 2015 performed in this research.

### **1.3 Research questions**

The main research question of this study is: "What are import and export forwarding processes in the foreign trade of Russia?" This question is quite comprehensive and needs some sub-questions to help answer the main question in more detail:

- What is Russian foreign trade? This question will help to understand the general picture of Russian export and import, analyse the strengths and weaknesses, structure and statistics of trade in theory.
- What are forwarding processes in import/export? In this question, the main processes of foreign trade will be discussed in the theory.
- What is the role of the case company in the forwarding processes of import/export? The main goal of this question is to analyse the work of a freight forwarding company in practice to determine the problems and their solutions during these procedures.

Answers to these questions are provided in theoretical and empirical parts.

### **1.4 Theoretical framework**

Russian and foreign scientific literature analyses in detail and considers the problems of the organization processes of import/export from the standpoint of modern logistics theory. However, the problems of increasing the efficiency of these processes via the transportation and forwarding companies and improving the quality of them are not considered enough. Both Russian and English sources are used in this study.

This thesis is based on the work of Belay Seyoum (2009) “Export/Import Practices, Theory, and Procedures”. This book has a wide range of theories about foreign trade operations that can help to understand the general steps in international business relationships.

Foreign trade operations require understanding and analysis of documentation that has to be used. For these purposes such resources as Customs Code of Customs Union and Russian Federal Customs Service have been used. This source provides information about documentation aspect of the foreign trade actions.

Moreover, the forwarding processes in the foreign trade are connected with names of Russian authors such as Bobkova, Volkov, Zimovec, Kitov, Sirotkin, Rostotskyi, Grechkov, Shobanov and Strukova. Their researches contribute to the methodological and theoretical aspects of logistics and forwarding and were applied in this thesis work.

Furthermore, as the topic of the thesis requires up to date information, there are a lot of Internet resources and articles, which used to find customs, transportation and delivery regulations. Also information from such courses as Operational Logistics, Supply Chain Operations and Logistics, Customer Service and Managing Logistics from Saimaa University of Applied Science were used.

## **1.5 Research methods and structure**

This research has a deep view on the foreign trade of Russia and import/export forwarding processes. There are two parts of this project: theoretical and practical. In the theoretical part, there is a review on all processes that can be faced during the import /export, as well as the analysis of Russian international business relationships. Furthermore, the cooperation of the forwarding companies and their customers is discussed. This part includes introduction, three chapters and a conclusion referring to the information from the trade organizations (such as WTO, European Commission, Russian Federal Statistics), statistical databases and previous research.

The practical part of this thesis is based on the experience of the case company Vodoley and the qualitative research method. The qualitative research method was chosen to have understanding and insight of stated questions and provide ideas, opinions, and beliefs. Moreover, the qualitative data collection methods are used in this

work. Such methods as interview and observation are the most suitable in order to have the proper results in this research.

Interview was the most suitable and effective method of collecting data for this research. Oakley maintains that qualitative interview is a type of framework in which the practices and standards be not only recorded, but also achieved, challenged and as well as reinforced (Oakley 1998). Interpreting and organising the obtained data are very important phases of the research. In this thesis, the data from the interview will be interpreted and analysed in the Subchapter 6.3.8 Research findings.

Observation is an effective research method that was not based on the theoretical aspects but on the real observing facts and their analysis. In this research, the participant observation was the most suitable method. It means that the researcher becomes the member of the observing group and participates in the inside processes. Sub- Chapter 6.3 is based on the real observations of the activities of the company. There are 7 processes described according to the experience of the author of the thesis.

The structure of the practical part performs the work and correlation of Vodoley forwarding company according to the import and export processes that have been analysed in the theoretical part. Moreover, the methods of the research are aimed to find possible problems in every process's phase.

## **1.6 Interview Design**

Daniel W. Turner has divided the interview into the three main phases: selecting participants, Implementation of the Interview and Interpreting the Data (Turner 2010). This approach will be used in the interview design:

### *1) Selection of the participant:*

- wide experience in the sphere of freight forwarding
- high qualification
- practical and theoretical knowledge of all processes in the company
- access to the information of the company

### *2) Implementation of the interview:*

- introduction to the topic and objectives

- main part. Consists of the 7 questions
- conclusion

### 3) *Interpreting the data*

- summarizing of the information

The following interview design will help to obtain the rich and current data for the research.

## **2 Russian Foreign Trade**

### **2.1 Situation in the Russian foreign trade until sanctions**

The professor of International Studies Belay Seyoum defines international trade as the exchange of goods and services across national boundaries (Seyoum 2009). It is a central part of world economic relations, mediating almost all types of international division of labour and linking all countries into a single world economic system. Structural changes occurring in the economy of the countries under the influence of scientific and technological changes, specialization and cooperation in industrial production increase interaction of national economic structures.

Foreign trade is an important sector of the economy in Russia. This, in particular, shows a significant increase in the basic indicators of export and import. Thus, in the period from 1997 to 2016 the volume of imports has increased more than 4.5 times: exports more than 3.4 times and foreign trade turnover approximately 4 times. During the years of reforms, the International business relationships have become the largest and most dynamic sector of the economy, providing over 30% of the federal budget revenue, which is comparable with the total tax deductions in the federal budget for the whole of Russian industry. High trade surplus ensures the supply of the necessary funds for the purchase of foreign currency for buying imported goods, implementation of international financial and other obligations of the country, including the ability to attract new loans, interventions in the domestic foreign exchange market in order to maintain and regulate the national currency. Being one of the most effective activities, foreign trade contributed to the formation of the financially stable enterprises-exporters and importers. Russia is an active participant in the international trade and commerce. Year by year Russia improves its customs legislation to expand cooperation with other countries.



Referring to the WTO, the main foreign partners of Russia are countries of European Union; they provide almost 50% of all trade. The second most important trading partners are countries of the Asia-Pacific Economic Cooperation, which provided Russia up to 25% of its turnover. The share of the CIS amounts to 12.7%.

Main Russian Partners
EU
APEC
CIS
EURASEC
TC

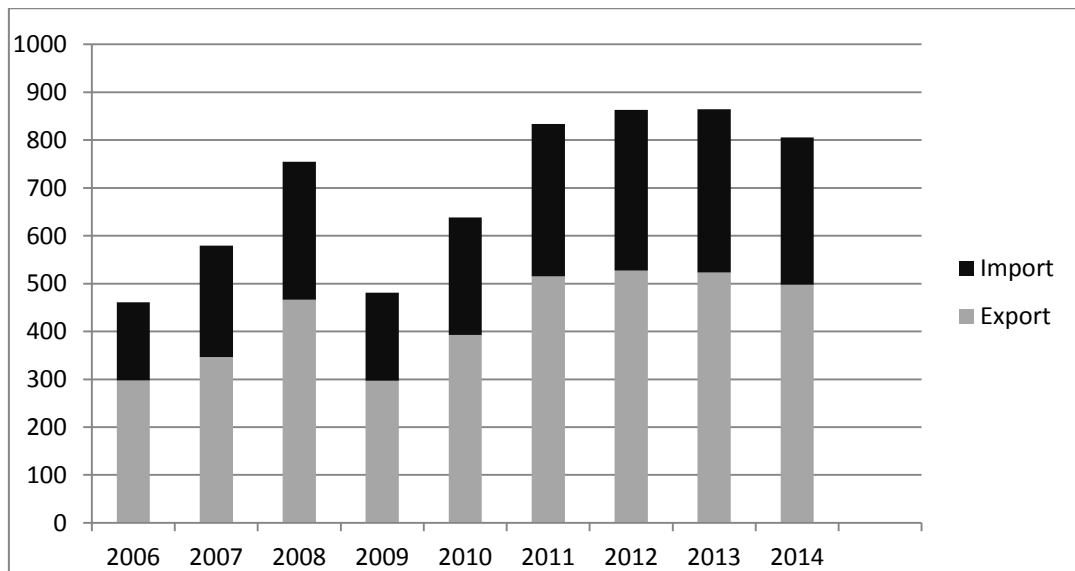
Table 1. Main Russian Partners (European Commission 2015).

In recent years main foreign trade indexes are changed to the wide extent because of the changes in the international economic trends. Russian foreign trade is trying to rise and recover and it can be forecasted that it will have the positive dynamic in the future.

The great influence on the Russian international business relationships has the acceptance of the Russia to WTO. Russia became a member of World Trade Organization (WTO) in 22.08.2012. This step provides it additional preferences such as changes in rates of customs duties and tariff quotas. Membership in the WTO increases the prestige of the country, reduces the political risks for investors, and affects the overall integration into the global political system (WTO 2015).

The role of the WTO is to regulate different kind of business relations. WTO activities are diverse and complex and they have some strengths and weaknesses, which are shown differently, depending on the economic situation, adaptation measures and other factors in each country. Considering Russia, some positive effects of the membership in the WTO can be defined: 1) improving the image of the country as an equal member of the world trade, 2) reducing barriers to international trade market, 3) free access to the existing international schemes of permitting trade disputes, 4) wider opportunities of Russian investors for participation in the economies of member countries of WTO, 5) increasing of competitiveness in the financial sphere, 6) modernization of the economy.

Russian foreign trade is a very dynamic process and it can be seen according to the data from WTO, where all the changes and statistics about the situation with today's Russian interactions can be seen.



Graph 1. Russian export and import performance millions of dollars USA per year (WTO, Russian Federation 2015).

The GDP ratio of Russia is 52.1. The share of export in a Russian world merchandise trade in total is 1.31 and the share of import is 2.49 which shows that Russian Federation acts more as an exporter of the goods. However, an absolutely different situation is on the Russian commercial service trade, the share of the export is 1.31 and import 2.49. It can be defined that Russia is an active provider of commercial services. (WTO, Russian Federation 2015.)

## 2.2 Problems of the Russian foreign trade after sanctions

The current situation in the economics of Russia is not positive and stable compared to the EU countries. The economics of the country is suffering from the crisis associated with the sanctions, fall of loan, investments, and prices for oil, monetary crisis, and reduction of the foreign trade turnover. These uncertainties are mostly affecting the Russian foreign trade and lead to the decrease of turnover (Russian Reporter 2015, p. 17). According to the Federal Customs Service of Russia, by the 2 of January 2016, the export of Russia decreased by 37.8 % and the share of import has fallen by 20.1 % in comparison to the 2015 (Russian Federal Customs Service 2016). Russel defines two main external factors that have influenced the Russian economy in the most dramatic way: falling oil and gas prices and sanctions (Russel 2015). Compared to 2015, in 2016 the cost value of exported gas and oil has decreased by the 44%. This index is critical for Russian economic because this share of Russian export is major, about 70 % (Russian Federal Customs Service 2016). Another factor that is related to the instability

of Russian foreign trade is sanctions. First sanctions were conducted in March 2014, after the accession of Crimea to Russia (Russel 2015). There were three stages of the sanctions:

- 1) aiming to the specific physical and legal entities
- 2) aiming to the economic sectors
- 3) stage of escalation.

The major negative effect has been provided by the sectoral stage of the sanctions. It is expressed in limited access to the capital, technologies, external markets and losing of some foreign business partners. MinFin published the value of losses from falling of oil and gas prices and sanctions by 2015. The approximate figures are 100-150 billions of dollars for falling prices and 40-50 billions of dollars for sanctions (MinFin 2015).

### **3 Import/Export Processes**

Foreign trade consists of import and export processes. Export can be defined as a selling of goods, technologies and services for their using and realization abroad. The products of the export can be produced or transformed in the country (seller). Consequently, import is purchasing and delivering of the goods, technologies and services on the domestic market for their implementation, as well as for transit to third countries.

Export and import flows of goods and services are indicators of the country's international activity level. In addition, it is not always possible to become an exporter of the product, even with the absolute and comparative advantage in production costs, the availability of factors of production. The positions of the exporter and importer to a large extent depend on the degree of competition in international markets and inside the country. Exports and imports of goods appear in the macroeconomic as well as in microeconomic level.

Taking into consideration Russian export/import structure, it is quite permanent. Annually more and more foreign products appear on the Russian market, for example high-technology devices or vehicles from the developed countries (the share of import - GDP of vehicles and machines is the biggest). Thus, they can compensate the shortage

of own production and less developed technologies. Metals and metal products, food and chemicals are on the second, third and fourth places by the import share.

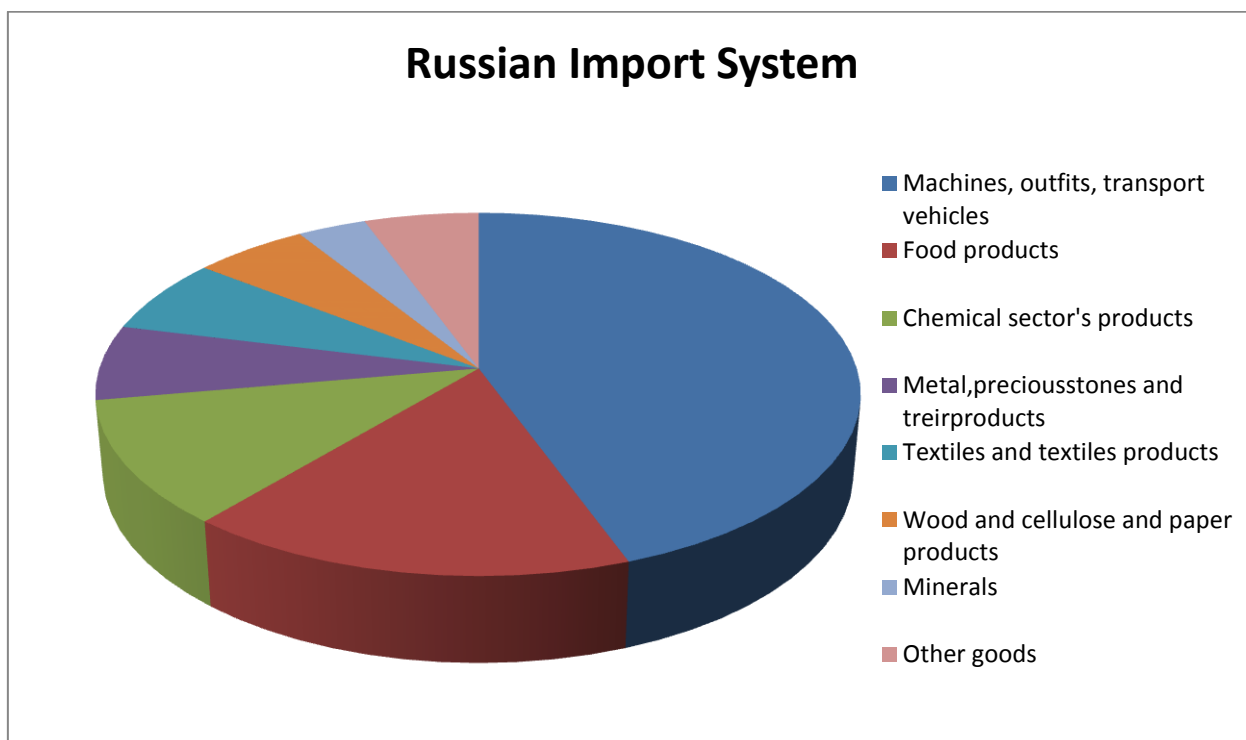


Diagram 1. Russian import system (Russian Federal Customs 2016).

Russian export shows absolutely different numbers and figures. It mainly consists of fuel and energy resources and their share is about 75 %. But prices and, as the result, export share of oil and gas are fluctuating by the crisis of the Eurozone and restrictive mechanisms of WTO. Comparing to the import share of vehicles and machines, their export share is quite small, 5 %. It absolutely does not comply with the potential of the industry as well as the level of the scientific base.

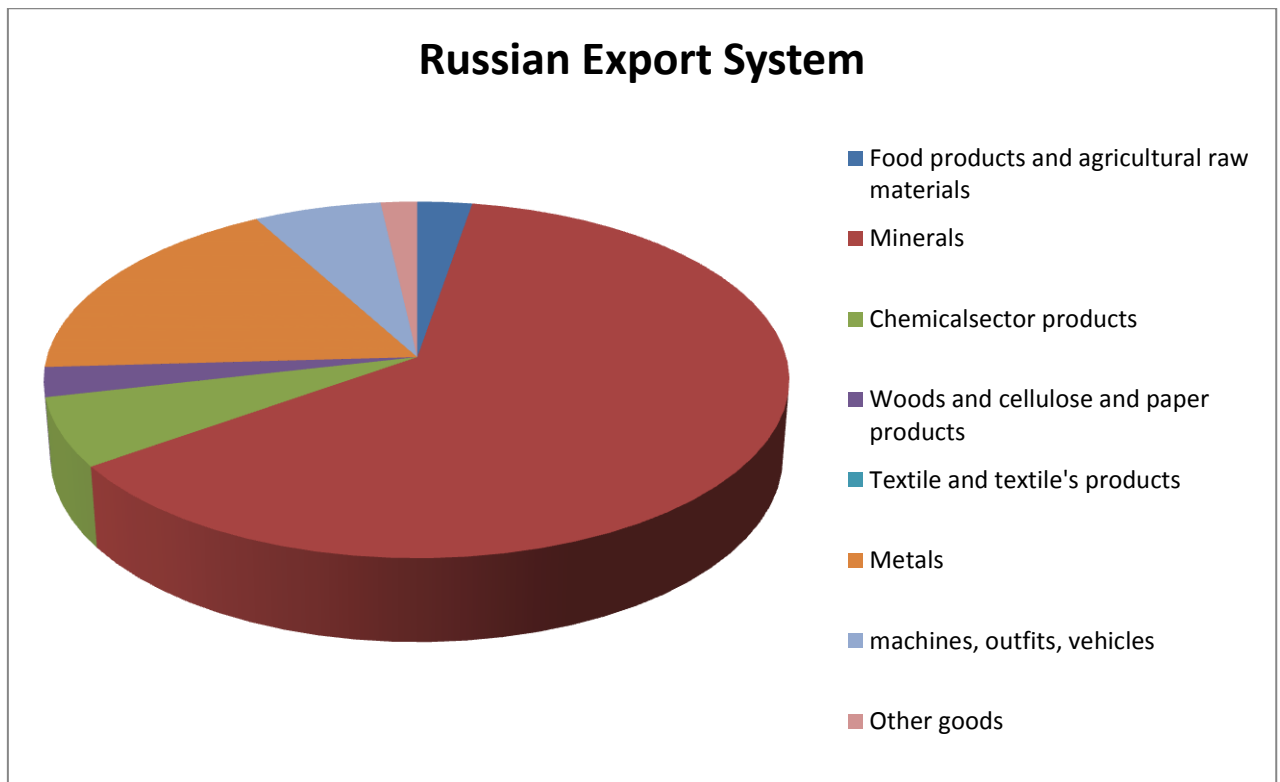


Diagram 2. Russian Export System (Russian Federal Customs Service 2016).

It is obvious that the export and import structure of every country is under the influence of many factors, such as political risks, economic changes, legal issues and logistics supply chain processes. This thesis is aimed to analyse the logistic processes of the import and export in details as it happens in the real international business relationships. There is a wide range of processes in the supply chain that should be managed in a right way to have a successful import or export operations and decrease the amount of the possible risks and loses. For instance, order management, terms of delivery, terms of payment, packaging, transportation, insurance and customer clearance procedures are stages that are faced by every company dealing with foreign trade operations.

### 3.1 Order management

All the logistics processes at the enterprise begin with receiving and processing customer orders. Complete procedure of the order management consists of several steps forming order cycle:

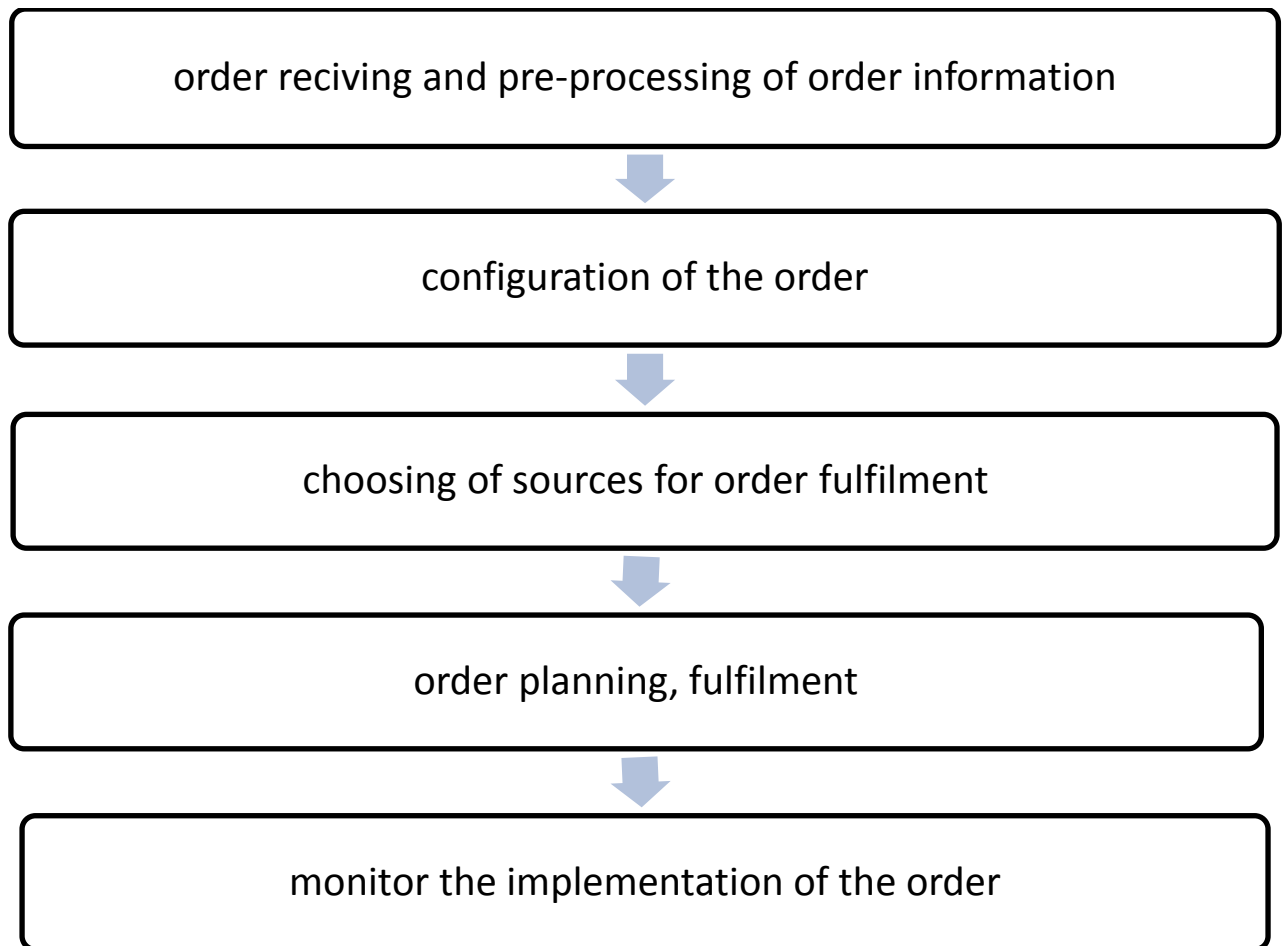


Figure 1. Order cycle (Eremeeva 2008).

The first and an important step is order receiving. At this stage, it is important for the company to provide the customer with the most convenient, simple and reliable ways of making orders. Modern companies use all possible means of communications, such as online/Internet forms, emails, instant messages, phone calls and post to receive order information. Accurate receiving and pre-processing can reduce the number of mistakes during order processing, fulfil the needs of the customer in the most effective way, as well as decrease the order processing time. Each order consists of a series of product and service attributes (parameters), and order management identifies these requirements according to the standard order form. This process is called configuration and includes identification, consideration of all the information about ordering, aggregation (Eremeeva 2008).

After the order is received and configuration is made the source order fulfilment should be chosen. Sources determination of the order is production and distribution network. Depending on the applied logistics concepts and requirements of customers a variety of rules for determining the sources can be used. If the concept of "rapid response" is

used, the manufacturer shall be geographically as close as possible to the demand of the local market because the customer should be performed with a short delivery time and in small quantities. In other cases, if demand is not limited in time and volume the orders can be delivered from remote distribution centres or from the factory (in that case the prices are usually lower) (Eremeeva 2008).

The next and central stage in the cycle is planning and fulfilling the order. It includes implementation of plans to the order aggregated groups, content, time performance and delivery of orders in each outlet. When all these processes of the order cycle are done they should be monitored to be more efficient. Monitoring of the order fulfilment includes assembly of production, transportation, packaging, forwarding, customer service and installation, technical support, customer acceptance of products (Eremeeva 2008).

According to the Keely L. Croxton order management processes (cycle) can affect the logistic supply chain in the operational level and strategic level. On the operational level this process can influence the transactions, delivery time and order time management, but on the strategic level, it can play the role of competitive advantage in the company as well as make some critical improvements to the logistic chain in the enterprise (Croxton 2003).

Therefore, we can define some main objectives and functions of the order management:

- definition of order time cycle in accordance with customer requirements;
- minimize losses in the delivery and improve the quality of logistic services;
- meet requirements of end users
- reducing inventory level
- reducing the total cost
- give the competitive advantage to the company
- build the reliable, long-term business relationships (Eremeeva, 2008).

Considering the freight forwarding, order management system is very complex and has multiple channels. Every detail of the order is important and should be considered and reviewed.

### **3.2 Incoterms**

To solve the problems associated with the different trading practices in different countries and to prevent disputes and litigation with the consequent waste of time and money during the foreign trade, the International Chamber of Commerce, the first time in 1936 published international rules for the explanation of trade terms. These rules were "Incoterms 1936". Due to changes in the world trade, the terms of delivery are also renewed time to time, the last time they have been changed was 2010 (ICC 2010). According to the Reynolds, terms of delivery have been revised in 2010 because of several reasons such as the necessity of rules for securing cargo and using Incoterms in US transactions. Moreover, the current version is improved and more user-oriented (Reynolds 2010).

International terms are designed to regulate the following spheres of international trade: defining the date and time of the delivery, distribution of transportation expenses and regulating the responsibilities related to the damage or loss of the goods during the transportation. Moreover, Incoterms consists of 11 terms, divided into two groups "rules for any mode or modes of transport" and "rules for sea or inland waterway transport" (ICC 2010). The major part of terms refers to all mode of transportation (7 terms) and 4 terms are for only waterway usage.



Group E (Shipping)	Any mode of transports	EXW	Ex Work
Group F (Delivery is not paid by the seller )	Waterway transports	FCA	Free Carrier
	Waterway transports	FAS	Free Alongside Ship
	Waterway transports	FOB	Free on Board
Group C Delivery paid by seller	Any mode of transports	CPT	Carriage Paid To
	Any mode of transports	CIP	Carriage and Insurance Paid to
	Waterway transport	CIF	Carriage, Insurance and Freight
	Waterway transport	CFR	Cost and Freight
Group D Delivery	Any mode of transports	DAT	Delivered at Terminal
	Any mode of transports	DDP	Delivered Duty Paid
	Any mode of transports	DAP	Delivered at Point

Table 2. Terms of delivery (ICC 2010).

Terms of delivery are made to create a competitive advantage through improved supply chain. Every participant of delivery process, from buyer to the forwarding professional, should understand Incoterms because they impact activities such activities of the enterprise as:

- sales budget

- costs and bills of materials
- lead time offsetting
- inventory levels
- customer service.

Freight forwarding companies usually encourage their customers to use Incoterms in order to ensure their international deal.

### 3.3 Terms of payment

The process of the payment in the international trade is quite important, complicated, unstable and risky procedure. Every party of foreign business relationship wants to make this process the most reliable, beneficial and convenient as well as prefers the other party to bear all the credit risks and finance the transactions. The priorities of the parties differ and it is important to find the compromise at this stage. Depending on who will bear the responsibilities and risks the method of payment should be chosen (Hinkelman 2008. p. 4).

Reuvid and Sherlock define the method of payment as means by which money is paid (Reuvid and Sherlock 2011, p. 322.). An appropriate payment method can minimize the payment risk while it also meets the needs of the buyer. During or before contract negotiations, parties should consider which method of payment is mutually desirable for both of them. Five terms are usually used in the foreign trade and provide the seller and buyer with different opportunities.

	<b>Least Secure</b>	<b>Less Secure</b>	<b>Middle</b>	<b>More Secure</b>	<b>Most Secure</b>
<b>Exporter</b>	Open Account		Documentary collections	Letter of Credit	Cash –in Advance
<b>Importer</b>	Cash –in Advance	Letter of Credit	Documentary collections		Open Account

Table 3. Kinds of payments by the level of secure (Trade Finance Guide 2013).

The table shows that what is more reliable for the exporter can be absolutely unreliable for the importer. Edward G. Hinkelman in his short course in International Payments defines that there are some factors that affect the choice of the payment methods, such as trust between buyer and seller, economic stability of each country, destination, financial market situation and political issues in both countries (Hinkelman 2008 p. 10).

The first term is Cash in Advance and it is the most desirable for the exporters but absolutely unreliable for the importer. The buyer simply makes a prepayment and, as a result, bears all credit risks.

Another method that secures the exporter is Letter of Credit. This method is interesting because the bank is included in the operation. The whole process is secured by the specified documents from the seller before making the payment. The disadvantage of this method is added cost for the buyer.

The opposite of the Cash in Advance is Open Account method that provides the least security to the exporter but the most secure to the importer. In this method of payment, the trust to the buyer is important because the payment is done only after the shipment of the goods within the 30, 60, 90 days (as agreed between parties). Sellers use this term of payment usually in the competitive business environment to get the advantage and benefits. Despite this, exporters have to go through all credit risks at first.

As mentioned above, each of these methods bears some risks to one of the parties and it can be complicated to distribute the responsibilities. In that case, there is a method of payment that has almost an equal risk and security for the buyer and seller. The Documentary Collection method helps to secure the deal with documents. The seller ships goods to the importer, but the buyer has got the right to own goods only after the payment.

In the international business practice the share of the Advance Payment is quite small (5-15%) compared to the Credit payments (up to 75%) (Rostovskyi&Greckov 2010). The choice of international payments terms is affected by several factors:

- type of product that is the subject of foreign trade (there are different forms of payment used in machinery or equipment case or in food supply)
- availability of credit agreement
- the ability of the buyer to pay credit and his reputation on foreign economic transaction
- the level of supply and demand for this product in world markets (Krasavina 2000).

It is evident that each term is made to protect participants of the international trade. Due to that, payments procedure usually has documentary structure. The most important

documents relating the financial sphere of foreign trade are invoice and contract (Hinkelman 2008).

<b>Indonesia Coffee Export Co.</b>	
Jalan Sudirman Jakarta 10420, Indonesia	
<b>INVOICE</b>	
June 27, 20XX Invoice No. 98-123456	
American Caffeine Import Company 125 Main Street Seattle, Washington	60e4e0084ea9539a339fe
Description of goods: 15 metric tons of 60-kilo bags of New Crop D.P. Sumatra Mandheling Arabica Grade 1 - Green Coffee - As per buyer's purchase order No. 1234	
TOTAL CIF Seattle, Washington, USA US\$65,000.00	
<u>Payment:</u>	By irrevocable documentary letter of credit No. 1234567 dated May 27, 20XX of The American Import Bank, Seattle, Washington USA
<u>Payment Terms:</u>	At 120 days' sight, draft drawn on San Francisco International Bank, San Francisco, California, USA
<u>Country of Origin:</u>	Indonesia
<u>Number of bags:</u>	250 bags
<u>Weights:</u>	Gross 15,000 kilo, Net 15,000 kilo
<u>Marks/No.:</u>	USA Made in Indonesia No. 12345.67
<u>Dispatch:</u>	Through ABC Freight Services, by sea from Jakarta via Sea Maritime Steamship Line to Seattle
Indonesia Coffee Export Co.	
<i>Indonesia Coffee Export Company</i>	

Picture 1. The example of the invoice. Picture from book "Documentary Collections and Cyber Payments in International Transactions" (3rd Edition) (Hinkelman 2008).

An invoice contains the list of goods, their characteristics, payments and terms of delivery. This document is actively used by the freight forwarders during the process of customs clearance.

### 3.4 Packaging and marking (labelling)

The import/export process in the international trade includes loading, unloading, transporting (by different modes of transport) and storing (in the warehouses and retail shops) of the goods. The products can be lost, damaged, get dirty, lose their shape and conditions during the long way of delivering. One of the protective measures against these risks is packaging. Despite the protection, packaging has a lot of additional functions, such as providing information, advertising, optimizing the loading process, rationalization of storage and handling. As a provider of the information, the package

should show the name, kind, date of producing and packaging, quantity and weight of the packed goods. From the advertising point of view, the package should have an attractive appearance, image and brand. Moreover, it is used for the accounting in the warehouse, handling processes and transportation to choose the most appropriate mode and volume of transport, the volume of store space needed to place the goods.

Packages are categorized by the big variety of classes, groups and types according to their functions, material, and features. The first two groups are external (containers, boxes, canvas, burlap, film) and internal (inseparable from the product). The type of the package is usually determined by terms of delivery. As an example, suppliers, using the FAS or FOB (Incoterms 2010), are obligated to protect goods with a special seaworthy packing.

Another way of classifying packages is their material and size. Several materials as wood, metal, cloth, glass and polymer are used for packaging. Packages are divided into massive (with the size more than 400x600mm) and small (with the size less than 400x600 mm) (FAO 2016).

Depending on the use, the packages can be for one use only, returnable (can be returned to the seller and be used again) and reusable (can be used for many times).

One more classification of packaging is defined by authors Fedko and Albekova in their research "Packaging and Marking of the goods and services". By their system of classification the package should have the following properties:

- sufficient capacity
- a solution of the complex tasks of accounting, traffic control, and requirements regulation
- interfacing with other package groups
- most efficient processing (Fedko; Albekova, 1998).

In the practice, the seller should provide the buyer not only with the product of the right quality and quantity, but also with all necessary information about the good. This information tool is defined as a marking of the product. According to Asriliyan, the marking is an application on the product or package of the good of the label and symbols as well as information such as name, sort and date of release (Asriliyan 1999). Marking is aiming to perform the following tasks:

- 1) identification of the cargo for all parties included in the transportation
- 2) specify the required condition of delivery and storage
- 3) warning about the danger.

Moreover, marking includes the complex of operations increasing the efficiency of the delivery, its safety, quality, and monitoring. For these purposes, it should consist of the barcode, name, quantity, price, standards, manufacturer, trademark, date of release, date and place of packaging, and expiration date.

In the international trade, there are some requirements to the marking of the products. Dealing with export/ import with EU countries, the CE directives should be followed. CE marking is the proof of the security and quality of the product as well as compliance with all requirements of the product (International Center for Quality Certification 2016).

### 3.5 Transportation

The main component of logistic is transportation. It is associated with the movement of the goods by different modes of transport from the seller to the buyer. Transportation is always in correlation with foreign trade. Zimovez (2008) notes that if the transportation includes the passing of the borders and transit area it is called international.

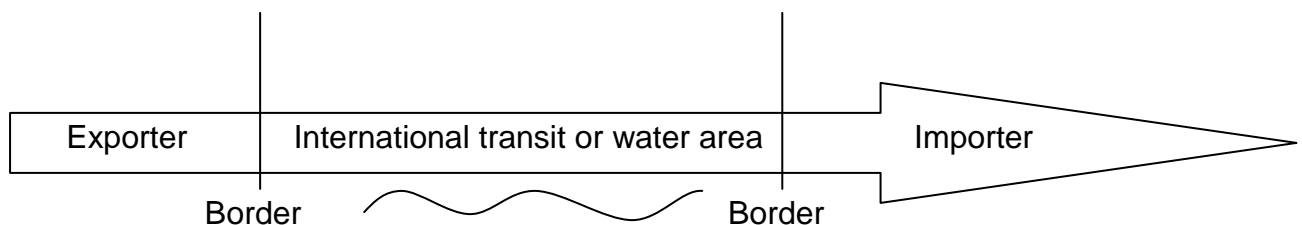


Figure 2. Scheme of the international transportation (Zimovez 2008).

Every region and country cannot imagine their economy and market without the import of goods and services. In other words, economics of the countries and regions as well as companies and enterprises depends on the movement of the goods. Well - developed and effective transportation can give the competitive advantage to the company, save time, reduce costs and improve the quality of service. According to the Commerce book, transport has several functions, such as increase the efficiency of the market, as well as the quality and range of goods, develop and expand the market, help specialization and mass production, improve the mobility of labour and capital, lead to economic growth and help to keep price stable (Dhanapal; Mahesh 2004).

Planning the process of transportation is a very important procedure in the international logistic. The company has to take into consideration the customer's demand, the delivery time, mode of transport, characteristics of the products and customer clearance procedures. One of the most significant decisions that should be made by the company during the planning of transportation is selecting the most effective mode of transport. There are 6 different kinds of transportation: waterway (river, sea), motor (cars, trucks), rail (trains), pipelines, air (planes) and mixed (more than one mode of transport is used). In the international trade, the choice of the way of transportation usually depends on time, quantity, special characteristics of the goods and delivery costs. If the time limit is the main requirement, the air freight mode could be a suitable choice. It can be the fastest way for the long distance delivery. In some cases, it is quite an expensive way of transportation but it expands its share in the transportation due to reduced packing, documentation and inventory requirements (Seyoum 2009). On the contrary, in case of not limited time and long distance delivery the most suitable way will be the waterway. It is the most popular and cheapest way of delivery, but on the other hand, the slowest and depending on the weather. It can be highlighted that the choice of a transport mode can be influenced by the type of the freight (weight, volume, content), amount and frequency of the parties, climate, seasonal conditions, location of delivery point to the nearest train station, airport, road or sea, safety of the cargo and risk of delivery failure.

Besides the mode of transport division, Zimovez categorized transportation into 4 additional groups: by the type of the freight (goods, passengers, language or post), by the way of the contracting (direct or indirect), by the loading (reloading or not) and by periodicity (regular, irregular) (Zimovez 2008). The exporter and importer should choose the most convenient and effective mode to face all the transportation needs.

Regardless the mode of transport, there is a great number of rules concerning transportation in the international trade. Nowadays these rules are stated in the international agreements. These agreements can be related to the single mode of transport (for example, CMR convention of UN) or multimodal (CMT convention of UN). Conventions are aimed to define the mode of transports, tariffs and responsibilities of two parties. Grishin divided them into 6 categories. According to him, there are agreements:

- about principles and organization of international transportation
- about condition of delivering goods and passengers

- about the tariffs
- targeting to facilitate transportation links
- specifying the work of different mode of transport
- providing international protection of international trade (Grishin 2007).

Transportation is a central process in foreign trade. Selection of the most suitable mode of transport and scheme of transportation can gain the competitive advantage and reduce costs for the transportation. To plan this process in the most effective way companies outsource this procedure for the freight forwarding companies.

### 3.6 Transportation risks and insurances

In practice transportation at the international level is important and risky. Seyoumn (2009) compares the international logistic with the domestic.

Domestic Logistics	International Logistics
<ul style="list-style-type: none"> <li>• Domestic currency used</li> <li>• One national regulation on customs procedures, documentation, packaging, and labeling requirements</li> <li>• Most goods transported by truck or rail</li> <li>• Generally, short distances, short lead times, and small inventory levels</li> </ul>	<ul style="list-style-type: none"> <li>• Different currency and exchange rates</li> <li>• Different national regulations and many intermediaries participating in the distribution channel (customs brokers, forwarders, banks, etc.)</li> <li>• Most goods transported by air or sea</li> <li>• Long distances, longer lead times, and the need for higher inventory levels</li> </ul>

Picture 2. Comparison of domestic and International Logistics (Seyoumn 2009).

As the delivery process consists of many procedures such as loading, unloading, packing, transporting, storing and so on, the goods can be damaged, lost or broken. In the work "Transportation Risk Management" the risk is defined as anything that provides the challenges in reaching the goal or object (Transportation Risk Management 2012). Thus, companies try to plan every future step and take any possible measures to protect their goods during their way to the buyer.

Logistics and transportation risks are the part of the commerce and can be divided from this point of view by:

- 1) Commerce risks. As the transportation risk it can be expressed as a failure in deliveries, contravention of the delivery time, nonfulfilment of financial aspects, of losses of benefits due to incorrect transportation, storage etc.



- 2) Bad weather condition risks. There are risks occurring in the result of earthquake, flood, sleet or any other natural cataclysms that can hinder the process of the transportation.
- 3) Risks of theft, for instance, stealing of vehicles.
- 4) Environmental risks. This kind of uncertainties represents harm to the environment during the delivery and warehousing.
- 5) Risks consisting of detriment to persons or entities during the logistics.
- 6) Technical risks. Risks related to using the machines and vehicles (Rubcov 2013).

With such diversity of uncertainties occurring during the logistics and transportation processes, exporters and importers aim at ensuring their freight in all possible ways. Tapman (2002) notes that risks can be forecasted and avoided with the help of analyzing and study them. Insurance of the cargo can be organized by single transportation, by each party and by the year period. Moreover, insurance can be against all risks or for the chosen or additional risks. In other words, all risks insurance includes protection against all possible uncertainties during the process of delivery. In the case of single insurance only a chosen risk will be insured, for example, if the insurance is only against the accidents, it will cover only this incident and will not work in the situation with theft or another emergency. The cost of the insurance is defined by the mode of transport, work of the carrier and the client. According to Seyoum, there is a division by principles of insurance. The first principle is the insurable interest which is based on the legal rights and laws. The second is the principle of subrogation where the claims are given to the party responsible for damage or loss (Seyoum 2009).

### **3.7 Customs clearance procedures**

In the international trade, goods should be cleared by the customs before they can be exported or imported (Tulli 2016). According to the Customs Code of Customs Union (2015), everybody has the right to movement of the goods and vehicles through the customs by the customs regimes. There are some regimes to regulate the international flow of goods:

- 1) Main customs regimes
  - import
  - export
  - international custom transit

## 2) Economical customs regimes

- processing in the customs area
- processing for the internal use
- processing out of the customs area
- temporary importation
- custom storage
- free customs zone (storage)

## 3) Completion customs regimes

- re-import
- re-export
- destruction

## 4) Special customs regimes

- temporary importation
- free trade (Customs Code of Customs Union 2015).

Each process of import/export requires documentation, which is described in the book “International trade” by Oksana Bobkova (2014). The first stage is to prepare the documentation about the parties of the deal (certificate of organization registration, charter, contract, information on the account), they can proof the legal and financial aspect of the foreign deal. Other papers that should be prepared are consignment documents. It includes the contract, invoice, certificate of cargo safety, veterinary and phyto certification, license, transaction passport and declaration of customs value, packaging list, and certificate of origin. The goods are imported (exported) by the vehicle that is also required to be cleared with the transportation documentation (in case of motor carrier, model and mark of the vehicle, registration number and signs, driver license, technical passport; in case of rail mode, type and number of container specifying the number and integrity of the locking mechanisms; in case of waterway transport- type and class of boat, name of the home port, confirmation of suitability of the transport (Bobkova 2014). Finally, the declaration should be accurately filled in this stage. In addition, during the preparation phase the exporter, importer or customs broker should notify the customs authority about crossing the border. This notification is accepted and then the place and time for the customs procedures are stated (Guide to Customs Export Procedure 2015).

The main stage of customs clearance is the most important and it is conducted directly on the border. The main stage consists of 5 processes that should be studied in more detail:

- 1) Reception and registration of declarations. The declaration should be filled in accordance with the customs regulations of the country and chosen customs regime.

The image displays two screenshots of the Finnish Tulli AREX customs declaration system. The top screenshot shows the 'Perustiedot' (Basic information) tab, which includes fields for 'Laatimispaivamaara ja aika' (Date and time of declaration), 'Laatimispaikka' (Place of declaration), 'Erityisolosuhteet' (Special conditions), 'MRN' (Movement Reference Number), 'Ilmoituksen viite (LRN)' (Declaration reference), 'Yhtenäisviite (UCR)' (Unified reference), 'Kuljetuksen viite' (Transport reference), 'Tavaraerien kokonaismäärä' (Total quantity of goods), and 'Pakkausten kokonaismäärä' (Total number of packages). The bottom screenshot shows the 'Tavara' (Goods) section, which includes fields for 'Tavaraerien kokonaismäärä' (Total quantity of goods), 'Pakkausten kokonaismäärä' (Total number of packages), 'Kokonaismäärä paino (kg)' (Total weight in kg), 'Rahdinmaksutapa' (Payment method), 'Ensimmäinen saapumistulli-toimipaikka' (First customs office of arrival), 'Arvioitu saapumispäivä ja -aika' (Estimated date and time of arrival), 'Kuljetusmuoto rajalla' (Mode of transport at the border), 'Aktiivisen kuljetusvälineen tunnus rajalla' (Active transport vehicle identification at the border), 'Aktiivisen kuljetusvälineen kansallisuus rajalla' (Nationality of the active transport vehicle at the border), and 'Lastauspaikka' (Loading place).

Picture 3. The example of the Finnish declaration (Tulli 2011).

- 2) Control of the Commodity code of goods and compliance of non-tariffs measures. At this phase the correctness of number that identifies the product item (Commodity Code) (Guide to Customs Export Procedures 2015), the origin of the products and non-tariffs measures are determined.
- 3) Control of currency includes checking of the declaration and customs value by the method of payment.
- 4) Control of the customs payment consists of monitoring the previous history of supplies, debts, compliance with the delivery time and validity of declared tax and tariffs.

- 5) Inspection is the final procedure in the customs clearance that confirms the declaration and transportation documents with the stamp and releases the goods by the declared custom regime.

After passing all these processes, the goods are considered as cleared and ready for the use in the buyer's country.

## **4 Freight Forwarding**

### **4.1 Key aspects**

Developing of the international trade effects the competition on the global market. As the result, special attention is paid to the supply chain. Effective logistics gives the competitive advantages and fulfil the requirements of suppliers and consignees. Dealing with the foreign trade requires the accuracy and deep knowledge in all logistic and customs processes. Misunderstanding and incomprehension in the foreign trade are the results of managing difficulties, fear of credits, transportation, commerce and legal risks, opacity and interpretation differences in the customs regulations. Moreover, not all of the companies can afford own their transport. Due to that, companies have to use a third party services or vendors, also known as freight forwarders (Grochla 1980). Experts divide the delivery market by custom broker's, transportation, warehouse and consulting and legal services market (Volkov 2014). Freight forwarding connects all these processes into one service. Shobanov and Srtukova (2006) have defined freight forwarding as planning, management, fulfilment of good delivery activities (from the supplier to the place of consumption) and providing additional services for their preparing and shipping.

In the recent years, the usage of freight forwarding services has significantly increased. Reasons for this growth are the results obtained by their participation. The positive tendencies can be seen for freight (complexity and transportability), vehicles (full loading and mobility), delivery (reducing costs, efficiency, informational content, selection of delivery mode), and documentation (accuracy). These results and benefits provide the competitive advantage but can hardly be obtained by the unqualified persons. In addition, according to the Wang and Kopfer (2014), forwarders can cope with the requirements of their customers with the own facilities and fleets (self-fulfilment)

or to take advantage of other carriers (subcontracting) and, therefore, make all logistics processes as profitable and efficient as possible. The positive results from the freight forwarding services reflect on the foreign trade in general.

#### **4.2 Cooperation between forwarding company and its customers**

Freight forwarding service is a complex procedure that makes a supplier, forwarder, customer and carrier work together. A forwarder is a person who works with the cargo and fulfils this procedure. In other words, he has a special knowledge of the shipment and transportation by different goods by waterway, air or land mode of transport. Moreover, the forwarder has information about customs regulations in his own country as well as in the foreign trade. Finally, he knows the requirements to the package and labelling in accordance with the way of delivery.

According to Kitov and Sirotkin (2011), in cooperation with customers, freight forwarders act as:

- delivery manager: takes the responsibilities for timeliness and quality of delivery (influence on speed and correctness of delivery, obtain the trust of the seller to buyer and vice versa). In addition, they provide the demand (volume) of transportation to the carriers
- delivery coordinator: monitors the transportation process
- insurer: insures the delivery process
- marketer: explores and expands the market, make agreements between parties, saves the client's resources and relieve him from unnecessary actions.
- Investor: invests in the logistics centres and warehouses.

<b>Service</b>	<b>Share of the clients (%)</b>
Counting	70
Warehousing	22
Choosing the way of delivery and the most suitable tariffs	22
Monitoring the transportation	15
Creating the databases	13
Organization of the information flow between a seller and buyer	12
Using of the transports	11
Control of the material	7

Table 4. Categories of freight forwarding services by share of clients (Kitov; Sirotkin 2011).

This versatility of the freight forwarding companies makes more and more clients trust and rely on their services. Thus, nowadays, the amount of businesses that cooperate with freight forwarders is rising significantly.

## 5 Conclusion

Analysing the situation on the Russian foreign trade it can be seen that the country is suffering from the political restrictions and sanctions which influence its economic situation in a negative manner. The effect of these political measures is decreasing export and import processes, as well as financial and banking instability of the international trade in Russia. Despite this, Russia continues to recover and participate in the foreign trade. Insecurity and difficulties of the international transactions with Russia lead to the necessity of using forwarding services, which can ensure the processes of transportation and customs clearances. The popularity of these services is rising

gradually and freight forwarders occupy responsibility of the participants of the foreign trade.

## **6 Qualitative Research: Company Vodoley**

The empirical part of this thesis is based on the author's observations and face to face interview with the manager of the freight forwarding company. The work experience and practical training in the company Vodoley gave a wide knowledge in the international trade logistics operations. Observations of import and export processes are discussed in this chapter.

An interview was conducted in order to have a professional and detailed opinion of the current situation in freight forwarding services and to find out possible risks and problems, the interview. The findings from the interview are presented in subchapter 6.3.8.

### **6.1 Case company description**

OOO Vodoley is a freight forwarding company dealing with export and import processes between Finland and Russia. The company is established in 2005 and has two offices in Vyborg and Saint-Petersburg. The main office is located on the border with Finland Torfyanofka (Vyborg).

There are a lot of companies that cannot imagine their logistics without Vodoley's service. Thus the company has a permanent place in the supply chain of companies that are dealing with import from Finland to Russia. The service it provides is custom declaration process and freight forwarding.

The company aims to simplify logistic processes for its customers, so the company has the central place as a service provider in the whole supply chain.

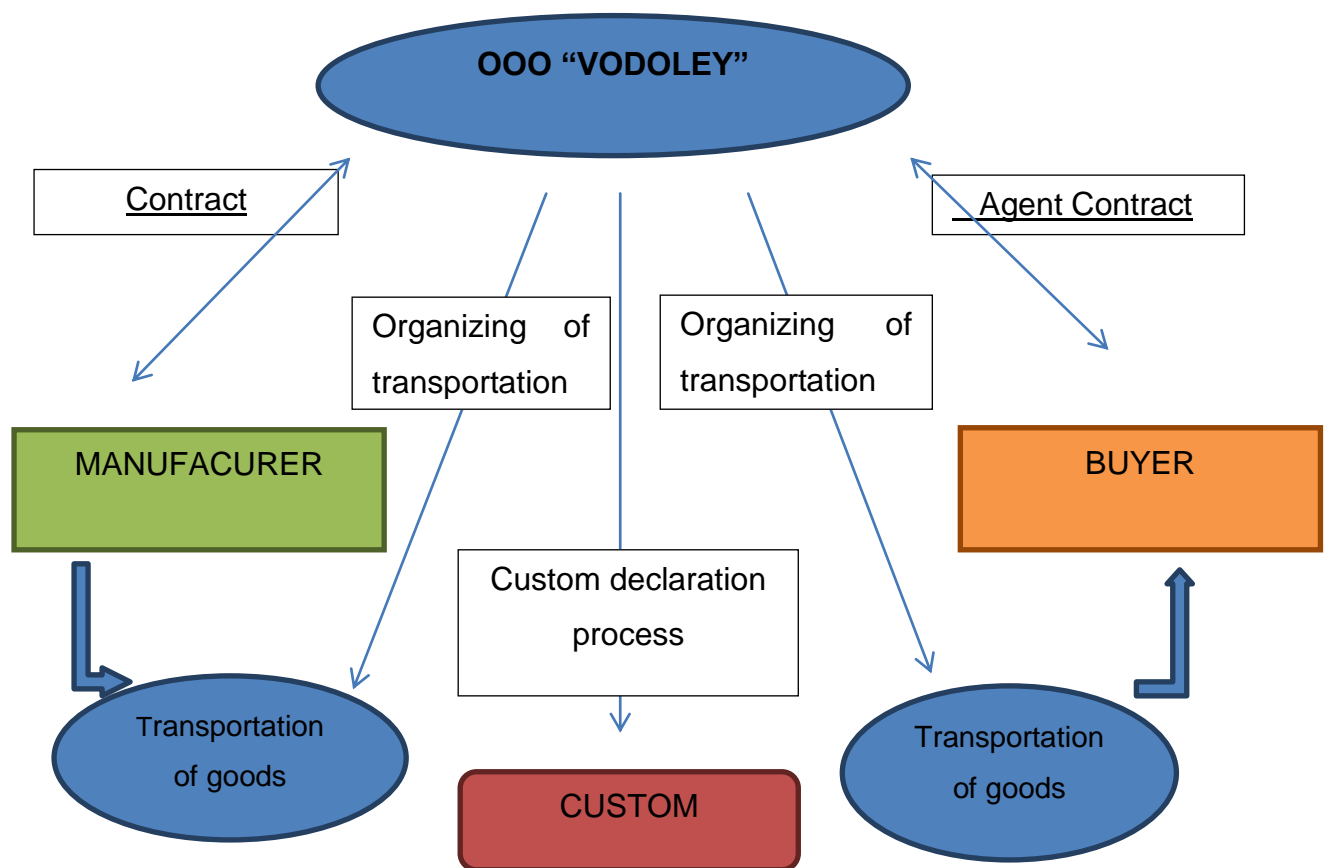


Figure 3. The role of the Vodoley in the freight forwarding.

## 6.2 SWOT Analysis of the company

The strategy of SWOT analysis is widely used in the marketing and strategic management and offers a simple and qualitative approach. This analysis is useful for the current analysis of the company's position as well as for the planning and forecasting. In addition, this tool can identify and improve the competitiveness of the company.



SWOT analysis of the case company Vodoley	
<u>Strengths:</u> <ul style="list-style-type: none"> <li>• Wide experience</li> <li>• good biography (reputation) on the market</li> <li>• high classification of the personnel</li> </ul>	<u>Weaknesses:</u> <ul style="list-style-type: none"> <li>• inflexible price policy</li> <li>• the need for the fleet renewal</li> </ul>
<u>Opportunities:</u> <ul style="list-style-type: none"> <li>• opening of new branches</li> <li>• new destinations for delivery and service</li> </ul>	<u>Threats:</u> <ul style="list-style-type: none"> <li>• losses of clients due to the highly competitive market</li> <li>• losses of orders due to the unstable situation in the world economy</li> </ul>

Table 5. SWOT analysis of the case company Vodoley.

From the Table 5, the main strengths and perspectives of the company can be seen. Vodoley considers the wide experience, reputation and high level of service as the most important advantages of the company. On the other hand, due to the age of the company, some part of the fleet should be replaced by t new ones. Moreover, the high completion on the market of freight forwarding is the serious drawback for businesses operation in this sphere. In spite of this Vodoley is aimed at improving its position with the help of opening new branches and destinations. Thus, it can give the company the real advantage on the market. However, there are some negative forecasts related to the difficult situation in the international and global trade.

### 6.3 Import /Export Processes in the case company

#### 6.3.1 Oder management and fulfilment in the case company

As every company, Vodoley pays a lot of attention to order management system. The order cycle in this company looks like this (Figure 4).

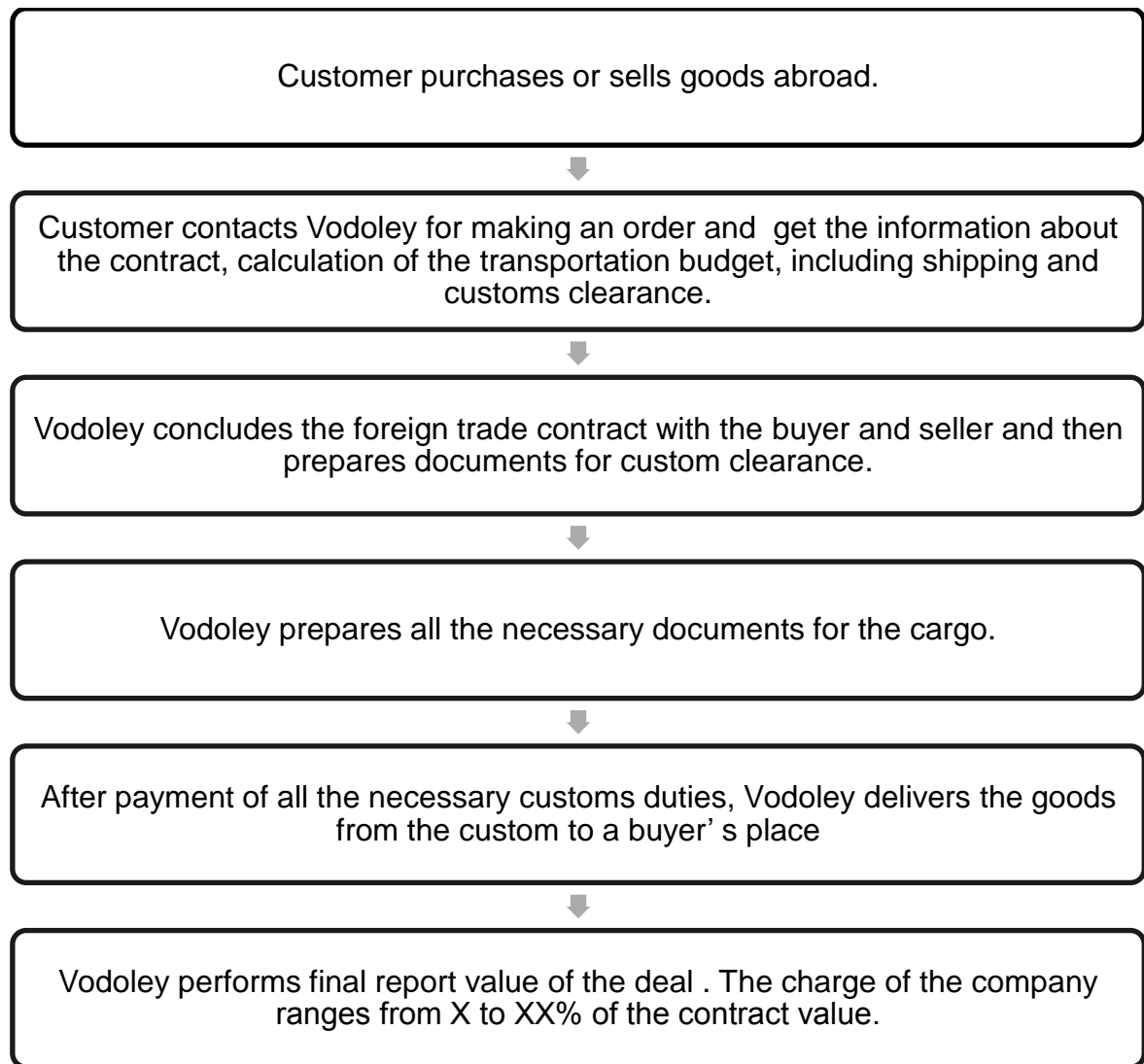


Figure 4. Order management in the case company.

Firstly, the orders arrive directly from clients by mail, fax, telephone or express communication. They can be documentary or oral (speech). Information in these orders is processed previously by filling the relevant standard primary documents and then are transferred to the personal computers magnetic carriers, forming the corresponding databases. This process is reception and order pre-processing. This process is usually manual and needs a lot of attention.

Next step is to order configuration. At this step, the order information accuracy is checked; for example, the description of the cargo, item number, quantity, the condition of the transportation, legislation and price. Then company prepares backorder or order cancellation documentation, if necessary, checks customer's credit status, transcribes order information as necessary, and prepares bills.

After all these documentary operations, it is time for actions. This step is order determination, planning and fulfilment. It usually takes from 3 to 20 days according to the level of difficulty of the order. At this stage all the main actions are taken. First of all the “Vodoley” company notifies the customer and contacts the foreign supplier. Then the choice of most suitable mode of transport and scheduling of the transportation take places. When the details of the transportation are known, it is time to prepare the transportation and customs documentation. If there are no difficulties with transportation and declaration of the cargo the transportation of goods is started and the order is carefully monitored. Moreover, the proper time and accuracy of packaging and delivering are also monitored by Vodoley.

### **6.3.2 Incoterms**

It is impossible to calculate the true landed cost of the product without a thorough understanding of Incoterms. As the Vodoley Company is the participant of the supply chain in the purchasing process, it should be able to deal with terms of delivery and, moreover, to present them and all the possible solutions for the consumer, recommend and decide the most suitable term of delivery. Vodoley transports the freight by trucks. Due to that, the following Incoterms are usually used:

#### EXW

EXW means Ex works. The seller makes the goods available at his places such as factory or warehouse. It is the buyer’s duty to arrange the transportation of the cargo from the seller’s place.

In that case, the importers usually apply for the freight forwarder (Vodoley) who will represent them in the foreign trade. This Incoterm is usually used by the client of Vodoley to import the cardboard to Russia.

#### FCA

FCA is one of the most common terms in Vodoley’s practice. The freight forwarding company, according to the agreement of two parties, is hired to make the transportation from the supplier to the buyer’s warehouse. The responsibility of the exporter is to deliver goods to the carrier. In the case of Vodoley, this term of delivery is usually used to deliver work clothing from a Finnish manufacturer to a Russian retailer.

## CIP and CPT

In these two cases, the buyer has to deliver the freight to the carrier. Thus, the Vodoley acts as a carrier as well as checks the responsibilities between the parties and searches the most beneficial conditions for its client. These terms are suitable to forwarding sports equipment for the Russian importers.

## DDP

This term defines the seller's responsibility for all the expenses such as customs clearance, import, export duties and other taxes. For example, several clients of Vodoley often use this kind of terms when dealing with Finland.

Effectiveness and accuracy in choosing the most suitable term of delivery can be obtained by the professionals. Due to that the personnel of the Vodoley should:

- be educated in INCOTERMS
- understand the true meaning of INCOTERMS and their role in the effective execution of global supply chain
- know how to identify the customer's risks and responsibilities connected with the international transportation of goods
- be able to calculate landed costs for import transportation.

Specialists of the company provide information and choose the right term according to the situation and kind of deal.

### **6.3.3 Role of the case company in payment processes**

At the first sight, it seems that freight forwarding companies have nothing in common with the payments of two parties. Although the Vodoley Company does not deal with the payments of good but it operates with their invoices and consults clients about the most reliable and efficient terms of payment.

The invoice shows the information about the transaction between the buyer and the seller: the name of the product, its quantity, unit price and total payment amount. The required information is the date of the transaction, its number, name and details of both parties. If taxes are taken into account, they are specified separately.

Moreover, the document may contain information about the conditions of the transaction, the terms and methods of payment and shipment. These details are usually desired and chosen with the help of the case company in cooperation with the client.

International transactions cannot exist without invoices. Customs pay special attention to them. The time spending on of the transporting of the freight through the customs depends on the completeness of information in the invoice.

Although the Vodoley does not participate in the payment, its professionals can define the most popular terms of payment that are used by their clients in the international trade. They are Open Account, Cash in Advance and Documentary Collection. It is important to fulfil the needs of the customer in the most reliable and secure way. Vodoley has an experience in export and import transactions, due to that the company is able to give their consultation services in the term of payment as well as check the paying capacity of the buyer and the reliability of the supplier.

#### **6.3.4 Packaging and marking (labelling) processes**

In accordance with the contract of foreign forwarding, the forwarders should make sure that the goods are transportable and packed in the required way for the delivery and customs. In practice, the transport packaging is usually done by the seller, who knows the characteristics of the products and the best way of packaging to protect them. Vodoley's customer can only tell his recommendation or wishes and the case company can only check the correctness of the packaging and marking from the transportation, security and legal points of view. At this stage, Vodoley's function is to receive the required for customer clearance packaging documents. Thereby, the company deals with packaging list.

The packing list is very similar to the invoice: it contains information about the supplier, the buyer and the name of the freight. However, it also shows information about the characteristics of the load weight, packaging, and their volumes.

Departure Num.: **54626**

Cliente:

TP_weight	N_weight	Item Id.	Item Description	Quantity	Order number	Volume
20.00	990.00	1 Pallet n°: 001204764 7903257	Dim. (cm): 120 x 80 x 90 D31 95 D31 W DIAMOND FLA1 0 BLACBLAC	Tot.: 45 45	0083162329	0.86
20.00	972.00	2 Pallet n°: 001204765 7903255	Dim. (cm): 120 x 80 x 90 D26 75 D26 W DIAMOND FLA1 0 BLACBLAC	Tot.: 54 54	0083162329	0.86
20.00	990.00	3 Pallet n°: 001204766 7903258	Dim. (cm): 120 x 80 x 90 D31X 95 D31 W DIAMOND FLA1 1 BLACBLAC	Tot.: 45 45	0083162329	0.86
Total n. of packages:		3	Total Quantity:		144	
Total net weight:		2,952.00				
Total gross weight:		3,012.00				
Volume m3:		2.59				

Picture 4. Example of Packaging List.

The packing list is essential for the forwarder and all specialists dealing with the processes of handling, sorting and accounting of cargo. It includes the number of seats and controlled product integrity.

### 6.3.5 Transportation

The Case Company takes responsibilities for the customs, organizational, security and other aspects of the transportation and guarantees the safety of the freight. When the customer places the order, each order is fixed by the employee of the Vodoley Company, who will monitor it during all way of delivery. The transportation process in the Case Company is divided into the following steps:

Planning. The freight forwarder has to plan the transportation process in details, taking into considerations the character, volume, quantity of the freight, and the distance between two parties, risks, climate conditions and time of delivery.

Choosing the suitable mode of transport. According to the information about the freight, the forwarder chooses the most convenient way of transportation. In the case of Vodoley, it is usually a motor carrier. The company has a wide fleet and the selection of the most suitable truck is made by the following criteria:

- technical and operational speed of vehicle
- dimensions of container
- gross weight

- engine power
- load capacity and dimensions of trailers, semi-trailers
- versatility of the vehicle

Signing the contract. When the scheme of the delivery and the type of vehicle are defined, the transportation contract with the freight owner should be prepared. The contract includes regimes of transportations, route and time.

Fulfilment of the initial operations. This stage consists of acceptance, handling, weighing, and loading of goods.

Delivery of cargo and informing the owner of the cargo about the process of delivery.

Unloading and final operations.

Freight transportation is one of the major services of the Vodoley. Due to that, the company places the great emphasis on the quality of this process. Thus, there are three categories of measures to evaluate transportation: quantitative, qualitative and technical. Values of transit tariffs, costs for additional services, transit time of delivery, reliability of transportation, stable delivery time, the frequency of delivery and safety are defined by the quantitative criteria. Qualitative measures include the availability of transport services, additional services, monitoring of the delivery and the contact with customers. Technical characteristics consist of technical opportunities of the fleet, flexible routing schemes, special and additional equipment. This range of measures should be fulfilled and controlled by the company to retain the competitive advantage on the transportation market.

#### **6.3.6 Transportation risks' insurances in the case company**

Statistically, every freight forwarding company faces unpredictable situations once or twice per year, which lead to the serious losses and expenses. Insurance is one of the most convenient and simple way to prevent financial losses during transportation. There are two types of the transportation insurances that are in use in Vodoley Company. According to the rules of the transportation insurance the carrier has to be insured from the transportation risks. This kind of insurance covers all the accidents that happen by the fault of the carrier or forwarder.

The forwarding company can be insured by the one-time policy (when it has only single transportation) or by the general agreement (if there several transportations per month).

The second type that is usually used and recommended by the Vodoley is freight insurance. In that case, the freight is secured from such kinds of accidents as theft, act of nature and so on. To ensure the freight of the customer, the case company analyses the following factors:

- the character of the goods (For example, the electronic devices or pieces of art insurance rate is higher than cardboard)
- destination and time (The higher these rates, the more expensive insurance rate)
- mode of transport (the motor carrier has the most expensive rate)
- packaging (unpacked goods are not insured in case of damages or scratches).

Only after analysis of these factors the insurer can the final price. In average, it is usually about from 0.06 to 0.3 per cents from the cost of freight.

The case company has not got any insurer in the own staff but it cooperates with the insurance companies, which are leaders in the field of cargo insurance. The insurance is valid at all stages of delivery of the goods from its loading on the vehicle before unloading at the customer's place. Vodoley usually tries to encourage their consumers to ensure transporting goods against all risks: damage, total or partial destruction, acts of third parties, loss, and so on. Moreover, the company offers the best rates and ensures timely payments on insurance cases.

### **6.3.7 Customs clearance**

The process of the customs clearance is quite comprehensive and requires a deep knowledge of the customs regimes and procedures, and it can be very difficult for an unprofessional. For those purposes, the Vodoley provides the service of customs broker. According to the Rostovskyi and Grechkov (2010) customs broker is the person who has the professional knowledge in the spheres of customs regulations, law, classifications and declaration of the goods, and has the license from the customs authorities.

The customs broker provides the following range of the customs clearance services:

- 1) Customs clearance



- classification of the freight according to the package list of international trade
  - analysis of the documentation
  - registration of the declaration
  - preliminary calculation and payment of customs duties and charges
  - submission of documents to the custom authorities and monitoring of the customs clearance
  - registration of international customs transit
- 2) Obtaining of permits
- sanitary-epidemiological certificates
  - certificate of conformity (for the manufacture, for the freight)
  - test and expert reports
  - phyto and vet control
- 3) Additional services
- analysis of international trade contract
  - help with preparing international trade contract
  - support of the contract
- 4) Information service
- providing the information about changes in the custom regulations
  - informing about the current situation with freight and documents
  - supporting the process of preparing the documents

During these services the customs requires providing the documentation for the freight. European Commission has listed the essential documents for customer clearance:

- Commerce invoice
- Custom value declaration
- CMR
- TIR Carnet
- Certificate of Origin
- T1-transit declaration (European Commission 2016a).

Besides this list of services and documents, the customs broker is obligated to produce the declared goods for the control of customs authorities (Rostovskiy & Grechkov 2010). According to the European Commission, the customs officers have to check the freight

in order to detect restricted or prohibited goods, also compare the stated value and description of the goods with the declaration (European Commission, 2016b). Close location of the office Torfyanovka to the customs post provides the brokers of the company the opportunity to monitor and participate in all customs activities as well as have the direct contact with the custom authorities. The carrier meets the broker on the boarder and has the support during all procedures of customs clearance.

### **6.3.8 Research findings**

The purpose of the research was to define risks and problems and possible solutions in the forwarding processes. During the research, seven main services of the company have been observed and the interview helped to analyse problems and risks of each process as well as identify the alternative solutions. This chapter is based on the observations of the author of the research and face-to-face interview with the manager of the freight forwarding company Vodoley. The participant has been asked seven questions concerning every process of the company:

- 1) What problems can be faced in order management?
- 2) Why INCOTERMS are important in the case of the foreign trade?
- 3) What are the most reliable terms of payment in case of import and export?
- 4) What problems can be faced in the process of packaging?
- 5) What are the main problems in transportation process?
- 6) What problems and risks can be faced in the customs clearance procedures?
- 7) What is the best way to ensure goods during the import/export processes?

Answers to these questions provide the current analysis and opinion of the specialist in the sphere of freight forwarding.

#### *Order management*

Order management is a complex process. In freight forwarding orders are usually received from multiple channels and contain very detailed information by every aspect of delivery, documentation, contracts, freight and so on. Inaccurate order management can provide many problems and risk related to the losses of important information and mistakes in further processes. This can be the cause of the poor customer services what is unacceptable for the reputation of the company. The possible solution is to use IT services.

### *Incoterms*

Frequently, parties conducting the contract at the international trade level are not familiar with the trading practices in the foreign country. It can lead to the risks of misunderstandings, disputes and litigations. Incoterms can insure the delivery and divide responsibilities in order to avoid these kinds of problems.

### *Terms of Payment*

International payment is one of the riskiest processes in the foreign trade because of the money involved in it. Each of the parties wants to make this process more reliable and secure for itself. Due to that, the compromise can be hardly obtained. This is a major problem of the freight forwarder. As it acts as the intermediate between two parties the most suitable term of payment for the company is the documentary collection. This method has the same level of security for both parties and service provider and can help avoid possible risks related to the payments.

### *Process of Packaging*

The main purpose of the packaging is the protection of the goods. There are two main risks related to the packaging: incorrect marking and damage of the transported goods. Transportation package usually differs from the standard and requires special protection and labelling. The solution for these two problems is monitoring by the professional. Freight forwarding companies are specialised in this area.

### *Transportation and insurance*

As the company deals with motor vehicles, the main risks are car accidents and breakage and damaging goods during the transportation. To reduce the possibility of these problems the measure should be taken before the each transportation. Qualified drivers and timely service of fleet reduce this kind of risks. Moreover, it is important to insure your goods. Sometimes shippers prefer not to spend money on the insurance that leads to the additional risks and complexities.

### *Customs clearance*

Customs clearance is the most complicated process for exporters and importers. The most common problem in that procedure is incorrect and inaccurate cargo declaration. This happens because of the lack of knowledge and practice in customs regulations,

regimes and documentations. Vodoley provides the services of customs broker to avoid all uncertainties related to the customs clearance of the freight.

The aim of this thesis is to define the import/export forwarding processes in Russian foreign trade. Nowadays, the international delivery includes the wide range of processes from this research and experience of the Vodoley Company can be seen that it is beneficial for businesses to outsource these operations to the freight forwarders. The freight forwarding services provide the competitive advantage, cost and time efficiency and reduce risks.

## **7 Conclusion**

The present thesis has investigated import and export forwarding processes in the foreign trade of Russia. It is evident that it is a difficult and unstable period in the Russian economic. The country is suffering from the crisis and sanctions that influence its international trade position in a negative way. The amount of import and export is falling critically and new solutions should be found. Despite this, Russia is an active participant in the import and export processes.

This thesis has created the general picture of processes in Russian foreign trade, discussing every process separately from the point of theory and qualitative research. The theoretical part is aimed at defining import and export processes in a general way, make an analysis of the situation in the foreign trade and explain the meaning of the freight forwarding services.

The goal of the qualitative research was to describe and compare the contents of the processes in case of the freight forwarding company Vodoley. The observation provides details of each stage of the processes and presents the strategy of the company related to such processes as order management, transportation, payments, insurance, packaging, customs clearance. The purpose of the interview is to discuss the main risks and uncertainties of all these stages. Lack of knowledge in transportation and customs activities, documentation and regulations, unprofessional approach and inaccurate order fulfilment are the major problems that have been defined in this research. A possible solution for following uncertainties is outsourcing these operations and tasks to

the freight forwarding companies. The amount of users of these services is rapidly growing.

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